

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2005

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**CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT**

CITY OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Hall	Light Plant Trustee	August, 2009
Dean Hubbard	Light Plant Trustee	August, 2007
Gordon Alexander	Light Plant Trustee	August, 2005
Don Fahlenkamp	Plant Superintendent	



Independent Auditor's Report

To the Board of Trustees
City of Montezuma Municipal Light and Power Plant
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant, a component of the City of Montezuma, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montezuma Municipal Light and Power Plant's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Governmental Auditing Standards, we have also issued our report dated July 27, 2005, on our consideration of the City of Montezuma Municipal Light and Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 8 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Municipal Light and Power Plant's basic financial statements. Roland and Dieleman, CPA's previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.
Certified Public Accountants

July 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Montezuma Municipal Light and Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the Utility decreased 78.4%, or approximately \$5,453,000, from fiscal 2004 to fiscal 2005. This is primarily due to \$5,150,000 of bond proceeds received in 2004.
- Disbursements increased 2.5%, or approximately \$66,900 from fiscal 2004 to fiscal 2005. Capital and debt outlay totaled \$1,118,028.
- The Utility's total cash basis net assets decreased 22%, or approximately \$1,244,000 from June 30, 2004 to June 20, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the Utility as a whole and presents an overall view of the Utility's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Utility's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Other Supplementary Information provides detailed information about the schedule of indebtedness and revenue note maturities.

Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Utility's net assets. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Activities and Net Assets show business type activities:

- Business type activities include electric service. These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has only proprietary funds.

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains Enterprise Funds to provide information for the electric system, considered to be a major fund of the Utility.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Utility's cash balance decreased from a year ago, from \$5,634,134 to \$4,390,425. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in thousands)		
	Year ended June 30,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 1,411	1,855
General receipts:		
Unrestricted interest on investments	81	16
Bond proceeds	-	5,150
Other general receipts	6	-
Total receipts	<u>1,498</u>	<u>7,021</u>
Disbursements and transfers:		
Electric	<u>2,742</u>	<u>2,745</u>
Total disbursements and transfers	<u>2,742</u>	<u>2,745</u>
Increase (decrease) in cash balance	(1,244)	4,276
Cash basis net assets beginning of year	<u>5,634</u>	<u>1,358</u>
Cash basis net assets end of year	<u>\$ 4,390</u>	<u>5,634</u>

Total business type activities receipts for the fiscal year were \$1.498 million compared to \$7.021 million last year. This decrease was due primarily to the receipt of \$5.150 million electric revenue bond proceeds in 2004. The cash balance decreased by approximately \$1,244,000 from the prior year primarily due to capital and debt outlay totaling \$1,118,000. Total disbursements and transfers for the fiscal year decreased by 2.5% to a total of \$2.742 million.

The Montezuma Municipal Light and Power Plant has no governmental activities.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Electric Fund cash balance decreased by \$1,243,709 to \$4,390,425, due primarily to the payment of \$435,018 in electric revenue notes and interest and \$683,010 paid on the steam electric generating unit in Pottawattamie County, Iowa. See Note 8 and Schedule 1 for more details.

BUDGETARY HIGHLIGHTS

The Utility's budget was set at the beginning of the year and not amended. Additional payments due to new debt caused us to exceed our budgeted disbursements.

DEBT ADMINISTRATION

At June 30, 2005, the Utility had approximately \$5,225,000 in bonds and other long-term debt, compared to approximately \$5,450,000 last year, as shown below.

Outstanding Debt at Year-End		
(Expressed in Thousands)		
	June 30,	
	2005	2004
Revenue notes	\$ 5,225	5,450
Total	\$ 5,225	5,450

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Don Fahlenkamp, Superintendent, 501 East Main St., Box 314, Montezuma, Iowa.

Basic Financial Statements

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the year ended June 30, 2005

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Service	Business Type Activities	Total
Functions/Programs:				
Business type activities:				
Electric	\$ 2,741,931	1,417,177	(1,324,754)	(1,324,754)
Total business type activities	<u>\$ 2,741,931</u>	<u>1,417,177</u>	<u>(1,324,754)</u>	<u>(1,324,754)</u>
General Receipts:				
Unrestricted interest on investments			81,045	81,045
Total general receipts and transfers			<u>81,045</u>	<u>81,045</u>
Change in cash basis net assets			(1,243,709)	(1,243,709)
Cash basis net assets beginning of year			<u>5,634,134</u>	<u>5,634,134</u>
Cash basis net assets end of year			<u>\$ 4,390,425</u>	<u>4,390,425</u>
Cash Basis Net Assets:				
Restricted:				
Debt service/improvements			621,791	621,791
Unrestricted			<u>3,768,634</u>	<u>3,768,634</u>
Total cash basis net assets			<u>\$ 4,390,425</u>	<u>4,390,425</u>

See notes to financial statements.

Exhibit B

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
As of and for the year ended June 30, 2005

	<u>Enterprise Funds</u> <u>Electric</u>
Operating receipts:	
Charges for service	\$ 1,411,439
Miscellaneous	<u>2,630</u>
Total operating receipts	<u>1,414,069</u>
Operating disbursements:	
Business type activities	<u>2,293,725</u>
Total operating disbursements	<u>2,293,725</u>
Deficiency of operating receipts under operating disbursements	(879,656)
Non-operating receipts (disbursements):	
Rental income	3,108
Interest on investments	81,045
Debt service	(435,018)
Community donations	<u>(13,188)</u>
Total non-operating disbursements	<u>(364,053)</u>
Deficiency of receipts under disbursements	<u>(1,243,709)</u>
Net change in cash balances	(1,243,709)
Cash balances beginning of year	<u>5,634,134</u>
Cash balances end of year	<u><u>\$ 4,390,425</u></u>
Cash Basis Fund Balances	
Reserved for debt service/improvements	\$ 621,791
Unreserved	<u>3,768,634</u>
Total cash basis fund balances	<u><u>\$ 4,390,425</u></u>

See notes to financial statements.

Exhibit C

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT
RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS

As of and for the year ended June 30, 2005

Total enterprise funds cash balances (Exhibit B)	<u>\$ 4,390,425</u>
Cash basis net assets of business type activities (Exhibit A)	<u><u>\$ 4,390,425</u></u>
Net change in cash balances (Exhibit A)	<u>\$ (1,243,709)</u>
Change in cash balance of business type activities (Exhibit B)	<u><u>\$ (1,243,709)</u></u>

See notes to financial statements.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(1) **Summary of Significant Accounting Policies**

The City of Montezuma Municipal Light and Power Plant is a municipal utility operating in the City of Montezuma, Iowa. The Utility has a board appointed on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma Municipal Light and Power Plant has included all funds. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Montezuma Municipal Light and Power Plant is legally separate from the City of Montezuma but is financially accountable to the City. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council. The Utility is includable as a component unit within the City of Montezuma reporting entity.

B. Basis of Presentation

Government-wide financial statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the Utility's non-fiduciary assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, but can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Montezuma Municipal Light and Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Light and Power Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The only restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. The reserve account and improvement account as described in Note (3) c) and d) are not available for current expenses.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the business type activities function.

(2) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4,021,350 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Credit Risk - The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(3) Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year ending June 30,	Electric Revenue Notes, Series 2004 Principal	Electric Revenue Notes, Series 2004 Interest	Electric Revenue Notes, Series 1999 Principal	Electric Revenue Notes, Series 1999 Interest	Total Principal	Total Interest
2006	\$ 175,000	193,920	55,000	11,127	230,000	205,047
2007	180,000	190,595	60,000	8,680	240,000	199,275
2008	180,000	186,455	65,000	5,980	245,000	192,435
2009	185,000	181,685	65,000	3,023	250,000	184,708
2010	260,000	176,320			260,000	176,320
2011	265,000	168,130			265,000	168,130
2012	275,000	159,120			275,000	159,120
2013	290,000	149,220			290,000	149,220
2014	295,000	138,345			295,000	138,345
2015	310,000	126,987			310,000	126,987
2016	320,000	114,588			320,000	114,588
2017	335,000	101,307			335,000	101,307
2018	350,000	87,070			350,000	87,070
2019	365,000	71,845			365,000	71,845
2020	380,000	55,603			380,000	55,603
2021	400,000	38,312			400,000	38,312
2022	415,000	19,713			415,000	19,713
	<u>\$ 4,980,000</u>	<u>2,159,215</u>	<u>245,000</u>	<u>28,810</u>	<u>5,225,000</u>	<u>2,188,025</u>

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate electric revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c) An electric reserve account of \$439,275 shall be maintained within the Enterprise Funds until all 1999 notes have been paid in full.
- d) An improvement account is set aside requiring \$2,500 on the first day of each month until \$150,000 is accumulated. There have been 15 payments due since the 2004 electric note proceeds were issued resulting in a \$37,500 improvement fund. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(4) Pension and Retirement Benefits

The City of Montezuma Municipal Light and Power Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$14,811, \$13,776, and \$11,640, respectively, equal to the required contributions for each year.

(5) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City of Montezuma Municipal Light and Power Plant until used or paid. The Utility's approximate liability for earned vacation payments payable to employees at June 30, 2005 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$21,047

This liability has been computed based on current rates of pay.

(6) Transactions Between the City and the Component Unit

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ 22,899	-
Water Dept. Billing/Meter Reading	22,060	-
Gas Dept. Electric Use	608	-
Gas Dept. Billing/Meter Reading	19,385	-
General City Electric Use	38,049	-
General City Repair Costs	1,343	-
Power Plants - Taxes in lieu	-	(39,093)
Power Plant - Gas and rock costs	-	(3,638)
Totals	<u>\$ 104,344</u>	<u>(42,731)</u>

The Municipal Utility's personnel does the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

NOTES TO FINANCIAL STATEMENTS
June 30, 2005

(7) Related Party Transactions

The Light and Power Plant had business transactions between the Plant and the Plant's officials totaling \$7,125 during the year ended June 30, 2005.

(8) Risk Management

The City of Montezuma Municipal Light and Power Plant is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Commitments and Contingencies

On September 4, 2002, the City of Montezuma Light and Power Plant entered into a joint ownership agreement with Mid-American Energy and thirteen other municipalities to construct and operate a coal-fired steam electric generating unit in Pottawattamie County, Iowa. The total project cost is approximately \$1,265,000,000 and the City has committed to an investment of approximately \$5,000,000. This commitment will be funded from October, 2002 through December, 2007, as construction progresses. During the fiscal year ending June 30, 2005, \$683,010 was advanced; the total that has been paid through June 30, 2005 to fund the project is \$1,551,495. The City of Montezuma Light and Power Plant issued \$5,150,000 of long-term bonds to finance this project.

Required Supplementary Information

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2005

	Proprietary Funds Actual	Final	Final to Net Variance
Receipts:			
Use of money and property	\$ 84,153	-	84,153
Charges for service	1,411,439	1,924,685	(513,246)
Miscellaneous	2,630	-	2,630
Total receipts	1,498,222	1,924,685	(426,463)
Disbursements:			
Business type activities	2,741,931	1,924,685	(817,246)
Total disbursements	2,741,931	1,924,685	(817,246)
Excess of receipts over disbursements	(1,243,709)	-	(1,243,709)
Other financing sources, net	-	-	-
Excess of receipts and other financing sources over disbursements and other financing uses	(1,243,709)	-	(1,243,709)
Balances beginning of year	5,634,134	419,838	5,214,296
Balances end of year	\$ 4,390,425	419,838	3,970,587

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the electric portion of the City's budget was not amended.

Other Supplementary Information

Schedule 1

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Electric	3/1/1999	4.15-4.65%	\$ 545,000	\$ 300,000	-	55,000	245,000	13,548	3,709
Electric	3/1/2004	1.50-4.75%	5,150,000	5,150,000	-	170,000	4,980,000	196,470	64,640
				<u>\$ 5,450,000</u>	<u>-</u>	<u>225,000</u>	<u>5,225,000</u>	<u>210,018</u>	<u>68,349</u>

See accompanying independent auditor's report.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT
REVENUE NOTE MATURITIES
June 30, 2005

Year Ending June 30,	Electric Revenue Notes				
	Issued March 1, 2004		Issued March 1, 1999		Total
	Interest Rate	Amount	Interest Rates	Amount	
2006	1.90%	\$ 175,000	4.45%	\$ 55,000	\$ 230,000
2007	2.30%	180,000	4.50%	60,000	240,000
2008	2.65%	180,000	4.55%	65,000	245,000
2009	2.90%	185,000	4.65%	65,000	250,000
2010	3.15%	260,000			260,000
2011	3.40%	265,000			265,000
2012	3.60%	275,000			275,000
2013	3.75%	290,000			290,000
2014	3.85%	295,000			295,000
2015	4.00%	310,000			310,000
2016	4.15%	320,000			320,000
2017	4.25%	335,000			335,000
2018	4.35%	350,000			350,000
2019	4.45%	365,000			365,000
2020	4.55%	380,000			380,000
2021	4.65%	400,000			400,000
2022	4.75%	415,000			415,000
		<u>\$ 4,980,000</u>		<u>\$ 245,000</u>	<u>\$ 5,225,000</u>

See accompanying independent auditor's report.

**CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT**



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
City of Montezuma Municipal Light and Power Plant
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities of the City of Montezuma Municipal Light and Power Plant as of and for the year ended June 30, 2005, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated July 27, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma Municipal Light and Power Plant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Montezuma Municipal Light and Power Plant's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma Municipal Light and Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma Municipal Light and Power Plant and other parties to whom the City of Montezuma Municipal Light and Power Plant may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma Municipal Light and Power Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.
Certified Public Accountants

July 27, 2005

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

II-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

Part III: Other Findings Related to Statutory Reporting:

III-A-05 Official Depositories - A resolution naming official depositories has been approved by the City of Montezuma Municipal Light and Power Plant. The maximum deposit amounts stated in the resolutions were not exceeded during the year ended June 30, 2005.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2005

- III-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the budget in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- III-C-05 Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-D-05 Travel Expense - No disbursements of City of Montezuma Municipal Light and Power Plant money for travel expenses of spouses of City officials or employees were noted.

- III-E-05 Business Transactions

Business transactions between the Utility and City officials or employees for the year ended June 30, 2005 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Materials and Labor	\$2,872
Don Hall, Trustee, Owner Hall Construction	Farm Septic Tank	\$4,253

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the mayor and trustee violate this section.

Recommendation - Utility should consult legal counsel regarding this issue.

Response - Utility will consider this.

Conclusion - Response accepted.

- III-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

CITY OF MONTEZUMA, IOWA
MUNICIPAL LIGHT AND POWER PLANT

SCHEDULE OF FINDINGS

YEAR ENDED June 30, 2005

- III-G-05 Trustee Minutes - No transaction were found that we believe should have been approved in the Trustee minutes but were not.
- III-H-05 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- III-I-05 Revenue Note - The City of Montezuma Municipal Light and Power Plant has established proper accounts as required by the utility revenue note resolution.